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BANKENO MINES LIMITED

Annual Report

FOR THE PERIOD ENDED
DECEMBER 31, 1967

BANKENO MINES LIMITED

OFFICERS AND DIRECTORS

THOS. J. DAY, Q.C., <i>President and Director</i>	- - - - -	Toronto, Ontario
J. W. McBEAN, <i>Vice-President and Director</i>	- - - - -	Swastika, Ontario
G. H. CHARLEWOOD, <i>Director</i>	- - - - -	Kirkland Lake, Ontario
E. T. DONALDSON, <i>Director</i>	- - - - -	Toronto, Ontario
DR. F. YANDEL, JR., <i>Director</i>	- - - - -	Nanuet, N.Y.
E. S. CHARD, <i>Treasurer</i>	- - - - -	Toronto, Ontario
K. H. LARKIN, <i>Secretary</i>	- - - - -	Toronto, Ontario

TRANSFER AGENT
CROWN TRUST COMPANY
302 Bay Street, Toronto, Ont.

AUDITORS
THORNE, GUNN, HELLIWELL & CHRISTENSON
Toronto, Ont.

HEAD OFFICE - - - - - 250 University Avenue, Toronto, Ont.

BANKENO MINES LIMITED

Report of the Directors

TO THE SHAREHOLDERS:

I am pleased to report that at long last a very comprehensive development programme is being carried out for oil and gas in the Canadian Arctic Islands. Last year Panarctic Oils Limited was organized to explore and develop the oil and gas potential in the Canadian Arctic Islands on a large scale. Panarctic has entered into farmout agreements covering in excess of 44,000,000 acres. Your Company and Cominco Limited, with whom we share our oil and gas Permit lands, have farmed out their acreage Permits to Panarctic. The net interests farmed out by Bankeno are 50% in some 3,600,000 acres, 32% in some 446,000 acres, 30% in some 1,474,000 acres, and smaller interests in other acreages acquired from previous participation in drilling.

The farmout agreements also provide that Panarctic is specifically obligated to drill two wells on favourable locations situated on certain of the Permits owned by the Company and Cominco to a depth of approximately 10,000 feet at one location, and 3,000 feet to 3,500 feet at the other location or until indication of commercial production in each instance. Upon completion of these specific obligations, Panarctic will acquire 75% interest in the specific permits at and about which it shall have drilled the two aforementioned wells, and in addition shall acquire an interest of 26.67% in the remaining Permits.

Panarctic is committed to expend \$20,000,000.00 on its exploration programme. Upon the expenditure by Panarctic of \$17,000,000.00 on the exploration programme then Panarctic shall acquire an interest of 53.333% in the permits other than those permits in which it shall already have acquired a 75% interest. In the event that Panarctic increases its expenditure commitment to \$30,000,000.00 then Panarctic will acquire an interest of 80% in all the permits upon the expenditure of \$26,000,000.00.

Panarctic Oils Limited was incorporated under the laws of Canada, having an authorized capital of 3,000,000 Preference shares of the par value of \$10.00 each and 1,000,000 Common shares without par value. Panarctic has issued 2,000,000 Preference shares of \$10.00 each in consideration for the commitment of expenditure of \$20,000,000.00 by the participants by way of a consortium. In addition, 500,000 Common shares are issued to the Preference shareholders at 10¢ per share on the basis of 1 common share for each 4 preference shares held. The initial subscribers will be given the right to participate pro rata in additional financing. The Government of Canada has subscribed for a total of \$9,022,000.00 (45%) of the entire issue.

Bankeno has shared to a very great extent in pioneering the oil and gas potential in the Canadian Arctic Islands. It was felt by the Directors of your Company that in the event of a major petroleum dis-

covery being made by Panarctic on properties not farmed out by Bankeno, your Company should have participation in the overall scheme. Your Company therefore subscribed to the extent of \$500,000.00 and was allotted a participation of \$452,879.00.

Upper Canada Mines Limited, which owns over 1,000,000 shares of our Company, has guaranteed our subscription and, in consideration therefore, has been allotted 50,000 shares of our capital stock. In addition, Upper Canada entered into an agreement to purchase a total of 250,000 shares of the Company at 80¢ per share. At the date of such agreement the closing market price on the Toronto Stock Exchange of Bankeno was 65¢-69¢ per share. Upper Canada was also granted an option to purchase an additional 125,000 shares of Bankeno at \$1.00 per share, thus allowing Upper Canada to see to it that funds would be available to cover our subscription of Panarctic shares which Upper Canada has guaranteed.

The operation by Panarctic is proceeding with dispatch. Base camps have been established and geophysical and seismic services have been contracted. Equipment has been delivered to location and operations are under way to ascertain the best location for the first wells to be drilled. We are not in a position to state definitely when the first drilling will commence. It will not be until such time as the staff of Panarctic is satisfied as to the optimum location of such wells. It is significant, however, that the initial focus of attention by Panarctic is on Melville Island where some of our prime permits are located and on which Panarctic is committed to drill.

An important revolutionary type of icebreaker has been invented and constructed in which Panarctic has a major interest. While only prototypes have to date been tested, they have met with astounding success and it is anticipated that ships fitted with this new ice-breaking equipment will as much as double or triple the navigation season in and about the Arctic Islands. This appears to be a major break through in the transportation problem which has been of concern. In addition, we understand that research, planning and development is in progress for alternative modes of transporting petroleum products such as submarine tankers and pipe lines.

I would refer now to the lead-zinc deposit held by your Company and Cominco on Cornwallis and Little Cornwallis Island. It is our understanding that Cominco intends this year to complete its surveys of existing discoveries to establish the best mode of proceeding with its programme next year.

Respectfully submitted on behalf of the Board of Directors,

Toronto, Ontario,
June 3rd, 1968.

T. J. DAY,
President.

BANKENO MINES LIMITED

(Incorporated under the laws of Ontario)

Balance Sheet—December 31, 1967

(with comparative figures as at December 31, 1966)

ASSETS

	1967	1966
CURRENT ASSETS		
Cash	\$ 18,883	\$ 8,765
Marketable securities, at 1966 market value being lower than cost (market value, 1967 — \$3,111)	1,082	1,082
Guaranteed investment certificate, at cost and accrued interest	150,120	180,969
	170,085	190,816
Investment in Panarctic Oils Limited, at cost (notes 1 and 5 c)	485,379	
Oil and gas permits, at cost (note 2)	30,825	30,825
Mining properties (notes 2 and 4)	25,488	25,488
Deferred exploration and development expenditures	206,279	201,404
	<u>\$ 918,056</u>	<u>\$ 448,533</u>

LIABILITIES

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 6,985	\$ 4,497
Payable to Panarctic Oils Limited due within one year	301,920	
	308,905	4,497
Payable to Panarctic Oils Limited (note 1)	452,879	
Less portion included in current liabilities	301,920	
	<u>150,959</u>	

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 5)		
Authorized — 4,000,000 shares, par value \$1 each		
Issued — 3,200,004 shares (3,150,004 shares in 1966)	3,200,004	3,150,004
Deduct discount thereon	1,550,211	1,532,711
	1,649,793	1,617,293
Deficit	1,191,601	1,173,257
	458,192	444,036
	<u>\$ 918,056</u>	<u>\$ 448,533</u>

Approved on behalf of the Board:

T. J. DAY, Director.

J. W. McBEAN, Director.

AUDITORS' REPORT

To the Shareholders of
Bankeno Mines Limited

We have examined the balance sheet of Bankeno Mines Limited as at December 31, 1967 and the statements of deferred exploration and development expenditures, deficit, administrative expenses and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1967 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 2, 1968

THORNE, GUNN, HELLIWELL & CHRISTENSON,
Chartered Accountants

BANKENO MINES LIMITED

Statement of Deferred Exploration and Development Expenditures

Year ended December 31, 1967
(with comparative figures for 1966)

	1967	1966
Balance at beginning of year	\$ 201,404	\$ 671,575
Expenditures during year		
Engineering fees	4,800	4,800
Geological and exploration, oil and gas permits		160,000
Other	75	29
	4,875	164,829
	206,279	836,404
Less proceeds from sale of interest in Arctic Islands oil and gas permits (notes 2 and 3)		
Cominco Ltd. (50% interest)		500,000
Less J. C. Sproule and Associates Ltd., 5% interest therein		25,000
		475,000
J. C. Sproule and Associates Ltd. (5% interest)		160,000
		635,000
Balance at end of year	\$ 206,279	\$ 201,404

Statement of Deficit

Year ended December 31, 1967
(with comparative figures for 1966)

	1967	1966
Balance at beginning of year	\$1,173,257	\$1,066,973
Administrative expenses (note 6)	18,344	105,337
Adjustment of marketable securities to market value		947
Balance at end of year	\$1,191,601	\$1,173,257

BANKENO MINES LIMITED

Statement of Administrative Expenses

Year ended December 31, 1967
(with comparative figures for 1966)

	1967	1966
Expenses during year		
Accounting and office services		\$ 2,800
Executive salary (being total remuneration of directors and senior officers) \$	5,079	845
Government fees, licenses and taxes	36	(1,075)
Interest and bank charges	1	418
Legal and audit	13,950	6,426
Listing fees	554	750
Postage, telephone and telegraph	1,066	1,121
Printing and stationery	81	450
Reports to shareholders	1,306	933
Share issue expense	268	247
Transfer agent's fees and expenses	1,888	1,334
Travelling	3,548	3,514
Sundry	72	515
	27,849	18,278
Less interest earned	9,505	5,969
	18,344	12,309
Deferred expenses at beginning of year		93,028
Administrative expenses transferred to deficit (note 6)	\$ 18,344	\$ 105,337

Statement of Source and Application of Funds

Year ended December 31, 1967
(with comparative figures for 1966)

	1967	1966
SOURCE OF FUNDS		
Proceeds from sale of interest in Arctic Islands oil and gas permits		\$ 635,000
		635,000
APPLICATION OF FUNDS		
Current portion payable re purchase of investment in Panarctic Oils Limited \$	301,920	
Exploration and development expenditures	4,875	164,829
Oil and gas permits		16,250
Administrative expenses	18,344	12,309
Adjustment of marketable securities to market		947
	325,139	194,335
Increase (decrease) in working capital position	(325,139)	440,665
Working capital (deficiency) at beginning of year	186,319	(254,346)
Working capital (deficiency) at end of year	\$ (138,820)	\$ 186,319

BANKENO MINES LIMITED

Notes to Financial Statements

Year ended December 31, 1967

1. INVESTMENT IN PANARCTIC OILS LIMITED

45,175 preference shares, par value \$10 each	\$ 451,750
11,294 common shares, no par value	1,129
	<hr/> 452,879

On November 25, 1967 the company purchased the above shares in Panarctic Oils Limited, a company formed to explore the oil and gas potential of the Arctic Islands in the Northwest Territories, to be financed jointly by private enterprise (51%) and the Government of Canada (49%). The consideration of \$452,879 is payable on demand over a three year period which commenced on October 1, 1967. The maximum payment in any year is \$150,960 plus any unpaid amount from a preceding year.

Capital stock issued for guarantee of above payments (see note 5 c)	
50,000 shares of the company at stated value	32,500
	<hr/> \$ 485,379

2. AGREEMENTS WITH COMINCO LTD.

Exploratory permits — Arctic Islands:

By Agreements dated May 17, 1966, between Bankeno Mines Limited and Cominco Ltd., Cominco acquired a 50% undivided interest in Bankeno's interest in Oil and Gas Exploratory Permits located in the Arctic Islands for the sum of \$500,000.

Pursuant to said Agreements the parties agreed as follows:

- (a) Cominco assumes the sole responsibility for maintaining in good standing the permits subject to the general provisions of the Agreement and their right as set out therein to surrender interests in the permits.
- (b) In the event Cominco drills on any of the properties Bankeno will retain a 25% carried interest and have the right, by participating, to increase its interest to 50% in any wells that may be drilled.
- (c) Cominco can enter into farmout agreements with respect to the properties but must retain a minimum 20% interest and any such retained interest will be divided equally between Cominco and Bankeno; further, in the event Cominco participates in the drilling of any of the wells under a farmout agreement Bankeno shall have the right to participate up to 50% of Cominco's participation in any and all wells that may be so drilled.
- (d) In the event that Cominco enters into any agreements with third parties where such third parties acquire an interest in the permits or wells drilled thereon and Cominco is entitled to participate in any financing conducted by the third party, Bankeno shall have the right to participate to the extent of up to 50% of the financing available to Cominco.
- (e) Any mineral discoveries that may be made as a result of geological exploration for oil, carried on by Bankeno or Cominco resulting in the staking of claims, the claims will be owned jointly by Cominco and Bankeno no matter which party stakes the claims.
- (f) Under the said Agreement Bankeno is relieved from any obligation to advance any funds unless they elect so to do, provided, however, that Bankeno will have to pay its share of operating costs incurred by Cominco in any well other than dry holes or wells that have ceased to produce; such amount payable by Bankeno to be equivalent to the average percentage interest of Bankeno in any such wells.

Mining Properties:

By agreement dated February 28, 1965, as amended, Cominco Ltd. was granted the right to explore and the exclusive possession of, the company's 62 mining claims on Little Cornwallis Island, Northwest Territories.

3. AGREEMENT WITH J. C. SPROULE AND ASSOCIATES LTD.

By letter Agreement of September 17, 1965, between J. C. Sproule and Associates Ltd. and the company, in consideration of geological and exploration expenditures to the amount of \$160,000 which were used in the acquisition of other permits in the Arctic Islands, the company granted J. C. Sproule and Associates Ltd. a 5% interest in the company's Arctic Islands holdings and in any consideration received for these holdings.

4. MINING PROPERTIES

62 Claims on Little Cornwallis Island, Northwest Territories, acquired for 50,000 shares of the company's capital stock valued at \$15,000 and staking cost of \$10,487	\$ 25,487
19 Leases in Mayo Mining Division, Yukon Territory, at nominal value	1
	<u>\$ 25,488</u>

5. CAPITAL STOCK

- (a) During 1966 options were given to two directors and another person to purchase an aggregate of 140,000 shares of the company's capital stock at \$1 per share up to October 26, 1971. None have been exercised at December 31, 1967.
- (b) By Agreement dated June 28, 1967 Upper Canada Mines Limited will subscribe for 100,000 shares in the capital stock of the company at 80¢ per share payable at the time that the company is required to pay the first \$150,960 to Panarctic Oils referred to in note 1. Upper Canada will also subscribe for an additional 150,000 shares of the company at 80¢ per share payable as the company requires additional funds to meet its commitments with Panarctic Oils, but not later than eighteen months after the first payment date.

The company also will grant to upper Canada an option to purchase an additional 125,000 shares of the company's capital stock at \$1 per share exercisable within three months following payment for the above 150,000 shares.

- (c) By Agreement dated June 28, 1967 Upper Canada has guaranteed the company's participation in Panarctic Oils in consideration for the company issuing 50,000 shares of its capital stock valued at \$32,500 to Upper Canada (see note 1).

Issued	No. of Shares	Discount	Net
Balance at beginning of year	\$3,150,004	\$1,532,711	\$1,617,293
Issued during year for guarantee of company's participation in Panarctic Oils Limited	50,000	17,500	32,500
Balance at end of year	<u>\$3,200,004</u>	<u>\$1,550,211</u>	<u>\$1,649,793</u>

6. CHANGE IN ACCOUNTING PRACTICE IN 1966

Exploration and development expenditures and organization and administrative expenses incurred to December 31, 1959 were written off to deficit at that date.

Subsequent to 1959 and up to December 31, 1965, administrative expenses were included in deferred charges. In 1966 these expenses were transferred to deficit together with expenses for the year ended December 31, 1966.